

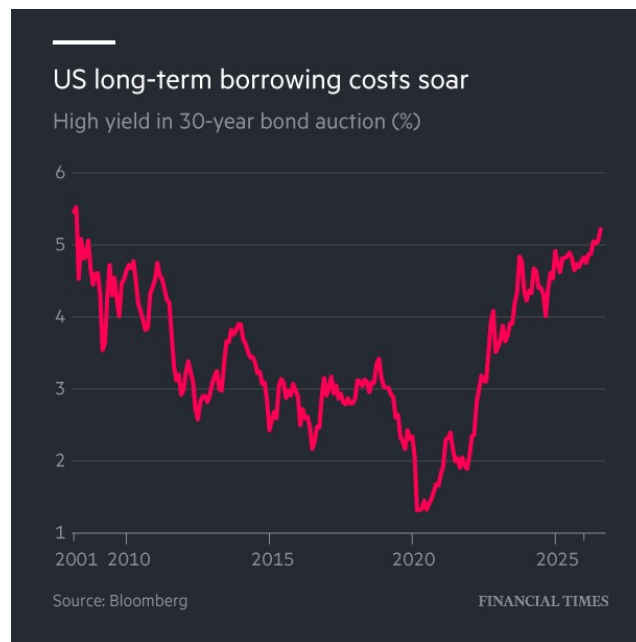
October 2026 – Third Quarter Investment Summary

Trinity Financial Advisors | Confidential Client Update

Overall Assessment

Since our last report, a renewed escalation with Iran has continued, and it has become the defining pressure of the quarter. The summer truce broke down in late August, oil climbed back above \$100 a barrel, and diesel set new national price records. Through it all, the stock market held up surprisingly well, finishing the quarter modestly higher and within a few percent of its record high.

For most of this year, we described the backdrop as a “Goldilocks” economy: moderate interest rates, contained inflation, strong earnings, and a supportive Federal Reserve. Today, only the earnings piece remains intact. Inflation, pushed higher by energy costs, has proven stubborn. In September, the Fed raised interest rates for the first time since 2023, and the central banks of Europe and Japan followed within weeks. Long-term U.S. borrowing costs have climbed to their highest levels since the early 2000s.



Corporate profits are growing at their fastest pace in years, business investment has accelerated, and the economy grew faster in the first half of the year than first reported. These are the reasons markets have held near record highs, and we describe them in more detail below.

But the forces behind that growth are also keeping the cost of money high, while signs of growing weakness continue to build underneath the surface. The AI buildout is absorbing enormous amounts of capital, energy costs are feeding inflation, and

governments here and abroad are borrowing at a record pace. Each of these on its own would put upward pressure on interest rates. Together, they are bringing the era of cheap money to a close, and everything built on low rates, leverage, and easy access to credit is now being tested by a higher cost of capital.

The Trinity View: Growth has returned, but so has the price of money, and much of the financial system was built on the assumption that money would stay cheap.

Geopolitics remains an important wild card. Seven months into the war with Iran, negotiations and military pressure are running side by side, and the conflict now stretches from the Persian Gulf to the Red Sea. U.S. forces have completed their withdrawal from Iraq after 23 years, and Iran's Revolutionary Guard has openly appealed to American voters ahead of the midterm elections. Elsewhere, the U.S. and China extended their trade truce into January, which removes one immediate risk. The common thread is energy. As long as fuel stays expensive, inflation stays sticky, and interest rates are likely to remain high.

Beneath the headlines, the picture is uneven. Profits are growing in many industries, but the growth is lopsided: just two chipmakers, Nvidia and Micron, are expected to deliver about a third of the S&P 500's earnings growth this year. Most stocks have lagged far behind a handful of AI and energy leaders, a sign that higher rates are weighing on how investors value almost everything else. Households are feeling the squeeze most directly, and consumer confidence has fallen to levels last seen more than a decade ago.

That combination creates the tension we are watching most closely, and the job market is now showing it. Employers added just 29,000 jobs in September, far fewer than expected, the government revised the two prior months lower, and unemployment rose to 4.2%. For fifteen years, markets could count on the Fed to step in when something cracked. With inflation still at 3.4%, the Fed has much less room to do that today. Investors quickly gave up on another rate increase after the report, but long-term borrowing costs barely moved, because the forces holding them up have little to do with the Fed. Signs of weakness are growing beneath the surface while those forces remain firmly in place, and a system built on cheap money has less cushion when help may be slower to arrive.

For our clients, our message is consistent with what we have said all year: portfolios are positioned for resilience, not just growth. The wind that carried markets for most of the past decade, cheap and abundant money, has shifted. This is a market that we believe rewards rowing type portfolios, not sailing.

Q3 2026 Market Update

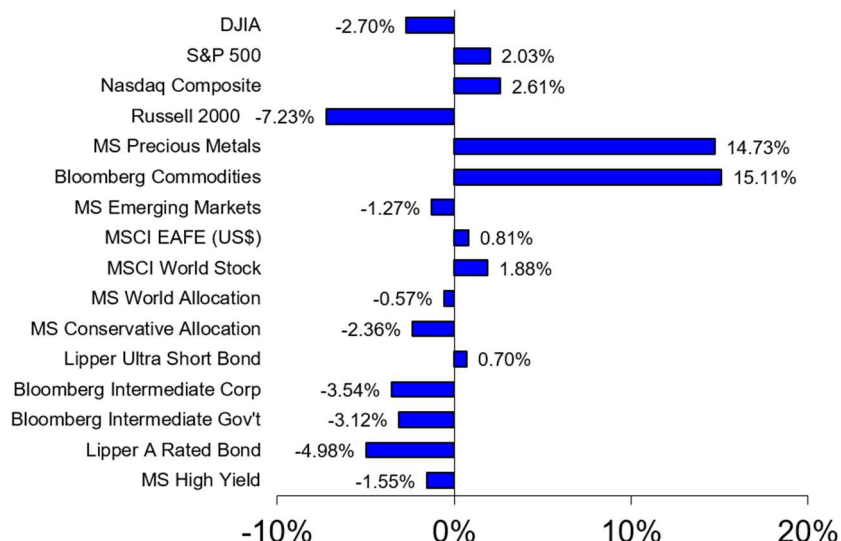
The third quarter was steadier for stocks than in the first half of the year, but far narrower than the headline suggests. The S&P 500 returned 2% and the Nasdaq 2.6%, while the Dow Jones Industrial Average lost 2.7%. Nearly all of the gains came from the largest technology companies: Microsoft, Meta, Nvidia, and Apple each rose more than 10%, and the Nasdaq set a record in late September. Developed international stocks gained about 1% for the quarter, while emerging markets slipped slightly.

Beneath the index, the quarter belonged to a narrow group. The equal-weighted S&P 500, which gives every company the same influence regardless of size, fell 2.3%, ending a five-quarter winning streak, and smaller companies in the Russell 2000 fell 7.5%. The ten largest companies now make up close to 40% of the S&P 500, and the four technology giants named above accounted for more than twice the index's entire gain for the quarter. The rest of the index, taken together, subtracted from it. By early October, Goldman Sachs found the gap between the index and the typical stock was the widest since the dot-com era. Similar patterns in 1972 and 2000 came before major bear markets, while in 2023 the rest of the market eventually caught up and the rally broadened. The difference in 2023 was that the AI spending cycle was just beginning. The open question now is whether it is still early or getting late.

Bonds had a difficult quarter. The 10-year Treasury yield rose nearly 0.9 percentage point, one of its largest quarterly increases in decades, and ended the quarter at 5.29%, the highest level since 2002. Because bond prices fall when yields rise, the broad U.S. bond market lost 3.5% for the quarter and is down 2.9% for the year, and long-term Treasuries fell far more. Bonds have not provided their usual cushion this year. The flip side is that ultra short government bonds (think money market rates) were up .7% for the quarter, with short term rates moving closer to 4%.

Oil was the quarter's biggest mover, with Brent crude rising 42% from the low \$70s to about \$104 a barrel as the Iran conflict intensified. Precious metals and commodities were up around 15% for the quarter, reflecting strong gains across a broader range of commodity-related investments.

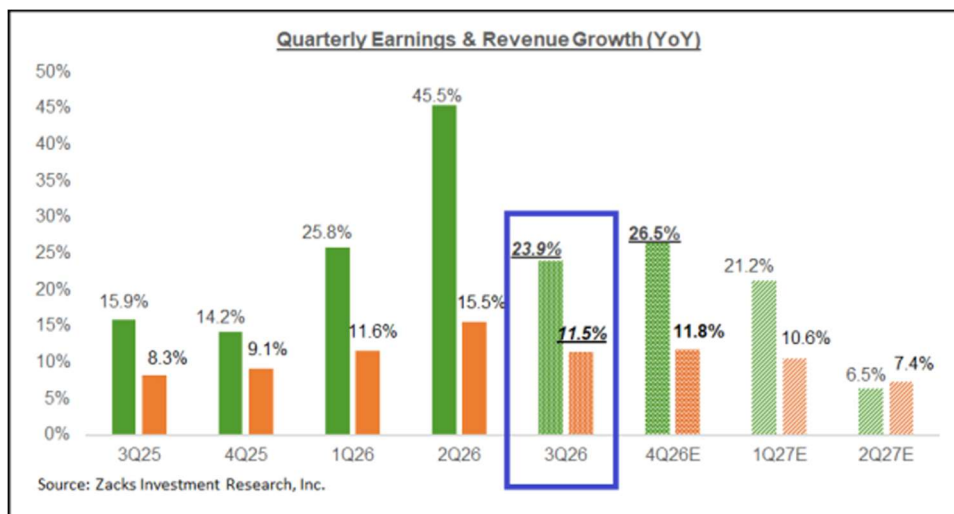
3rd Qtr 2026 Market Returns



Key Themes and Risks

The Case for Optimism

Corporate earnings are the clearest bright spot. Analysts expect S&P 500 profits to grow nearly 24% from a year ago in the third quarter, which would be the eighth straight quarter of double-digit growth. Just as notable, estimates have risen during the quarter, and 14 of the 16 major sectors are on track for higher earnings. Corporate profits as a share of the economy are near the highest level on record. Because profits have grown faster than stock prices, the market's price relative to next year's expected earnings sits below its five-year average.



The economy is also stronger than first reported. The Commerce Department revised growth for the first half of the year sharply higher, raising its second-quarter estimate to 2.2% from 1.5%, largely because business investment was stronger than estimated. Data centers drove much of that increase. In August, the Fed Chair noted that business spending on equipment and technology is growing at its fastest pace since 2021, with more than half of that growth tied to AI. The demand behind it is real: according to the Fed, the two leading AI companies now bring in more than \$100 billion a year combined, more than five times what they earned a year earlier.

The economy has also absorbed shocks that might have derailed it in another era. Consumers, despite their growing concerns, have kept spending, and unemployment remains low by historical standards. U.S. oil production has reached a record of about 14 million barrels a day, and Gulf oil exports climbed in September to their highest level since the war began, a sign the energy system is bending rather than breaking. Higher rates also carry a real benefit for investors: after years of earning little or nothing above inflation, high-quality bonds now pay close to 3% more than inflation, giving conservative portfolios a meaningful return again. Stocks set new records in early October, a reminder that a market can keep climbing for a long time even while risks build underneath it.

The Price of Money Has Reset

Warren Buffett has long compared interest rates to gravity: the higher they go, the harder they pull on the value of every asset. That pull strengthened worldwide in the third quarter. The Federal Reserve, the European Central Bank, and the Bank of Japan all raised rates within weeks of each other, and the bond selloff that followed was global. Britain's 30-year yield topped 6% for the first time since 1998, Japan's 10-year yield reached its highest level since 1996, and France's borrowing premium over Germany hit its widest since the 2012 euro crisis, with the stress now spreading to French banks.

Three forces are pushing rates higher. The first is inflation, driven largely by energy: oil prices and Treasury yields are moving together more closely than at any time since the 1990 Gulf War. The second is government borrowing. Federal debt passed \$40 trillion in September, up about \$2.6 trillion in a single year, while foreign buyers are pulling back. China's holdings have fallen to their lowest level since 2008 amid growing geopolitical distrust, and Japan, the largest foreign holder, has trimmed its position for three straight months as yields at home become more attractive. The third force is the AI buildout, which competes with every other borrower, including the government, for the same pool of savings.

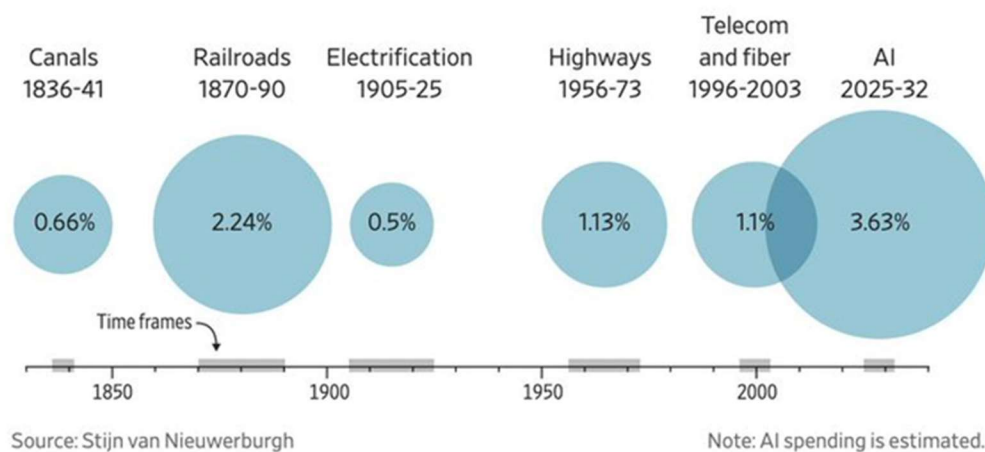
The September jobs report showed why this matters. Short-term yields fell as investors stopped expecting another Fed increase, but the 10-year yield barely moved and

remains above 5%. The Fed controls short-term rates, while mortgages, car loans, and most corporate borrowing run off longer-term rates that the market sets. A family that bought its home with a 3% mortgage doesn't feel today's 7% rate until it has to move or refinance, and much of the economy, from businesses to the government itself, is now reaching that moment. The speed of this move concerns us more than the level, because rapid increases in yields have historically exposed weak spots in the financial system.

AI: From “Is It Real?” to “Who’s Paying, and When?”

New research estimates U.S. AI infrastructure spending will reach \$10.3 trillion from 2025 through 2032, averaging 3.6% of the entire economy each year, larger relative to the economy than the railroad, highway, or telecom booms of the past. More of it is being financed with debt and long-term commitments that don't show up on balance sheets. Moody's estimates the largest cloud companies now carry roughly \$2.8 trillion in off-balance-sheet AI commitments, up from about \$350 billion in 2023. Think of a family that has signed contracts on three houses still under construction. None of it looks like a mortgage yet, but the payments are coming.

Average annual infrastructure spending as a percentage of GDP



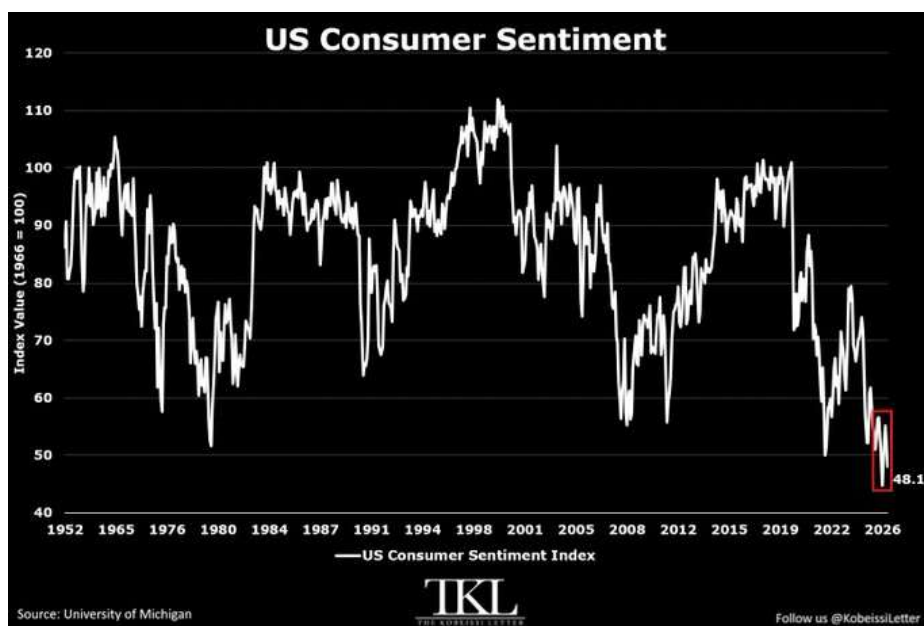
The financing is also becoming circular. Chipmakers are increasingly lending to their own customers, much like a car dealer financing its own buyers. Nvidia is helping arrange more than \$500 billion of AI financing and will cover up to a quarter of the losses on individual deals, and Broadcom has agreed to lend up to \$42 billion to a leading AI company to help it buy Broadcom's own chips. A Bank for International Settlements study published in early October found that more than half of the money invested in AI companies now comes from other AI companies. Lenders are still lending, but at a price. AI borrowing costs are approaching 10% even for relatively large, established issuers, with weaker borrowers potentially facing considerably higher costs. The key disagreement is how long the collateral lasts: Nvidia argues its chips

stay valuable for up to a decade, while lenders are underwriting them over three to four years.

The harder question is the payoff. For this buildout to earn a normal return, one estimate finds the industry would need roughly \$3.7 trillion a year in computing revenue by 2032, compared with about \$300 billion today. Physical limits make that timeline harder: announced U.S. data center capacity is roughly seven times what is actually operating, and delays are spreading, from Oracle's campuses in New Mexico and Wisconsin to two Google sites Finland ordered halted. The fiber optic boom of the late 1990s is a useful reminder that technology can win while many of the builders lose. AI demand is real. The answer is not to avoid AI, but to make sure exposure is intentional, appropriately sized, and aligned with the risks rather than accumulated by default.

The Consumer: Still Spending, Losing Confidence

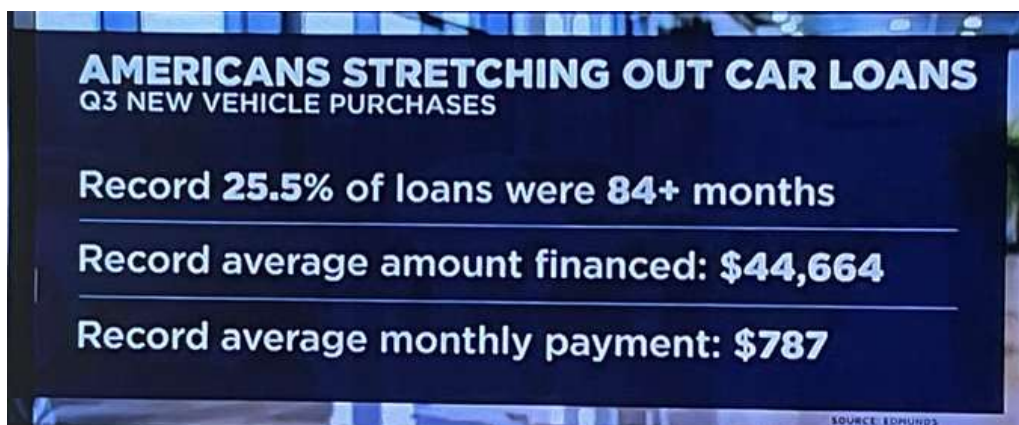
American consumers are sending two very different signals. Spending has held up, but confidence has collapsed. The University of Michigan's Consumer Sentiment Index fell to 48.1 in September, down from 51.7 in August and just above its all-time low, reflecting exceptionally weak views of the economy and consumers' financial outlook. On average, consumers now expect prices to rise more than 6% over the next year, and nearly seven in ten expect interest rates to go higher. Part of the reason is that paychecks are falling behind: average pay rose 3.0% over the past year, while consumer prices rose 3.4%.



The explanation is that the consumer economy has split in two. Wealthier households, who own most stocks and locked in low mortgage rates years ago, are carrying a large share of spending. The number of Fidelity 401(k) accounts worth more than \$1 million

rose 19% in the second quarter alone, to a record 769,000. Households with lower and middle incomes, who spend more of their budgets on fuel, food, and debt payments, are absorbing most of the pressure. Housing shows the same divide. Mortgage rates have risen for six straight weeks to about 7.3%, the highest since late 2023, and home sales have slowed sharply. Yet the median existing home price hit an August record of \$429,100, because owners with 3% mortgages are staying put. Job searches are also taking longer, with roughly one in four unemployed Americans out of work for more than six months, a share historically reached mainly around recessions.

Car loans show the strain most clearly. With the average new car price approaching \$50,000, buyers are stretching payments further: a record 31% of auto loans now run longer than six years, up from about 25% a year ago. More than half of borrowers are starting with negative equity, meaning they owe more on the loan than the car is worth from the day they drive it off the lot, and the average loan rate is now about 11%. Among borrowers with weaker credit, the share of auto loans at least 60 days past due reached its highest level in more than three decades of data earlier this year, above the 2008 peak, and repossessions last year were the highest since 2009. Borrowers with strong credit, by contrast, are still paying on time.

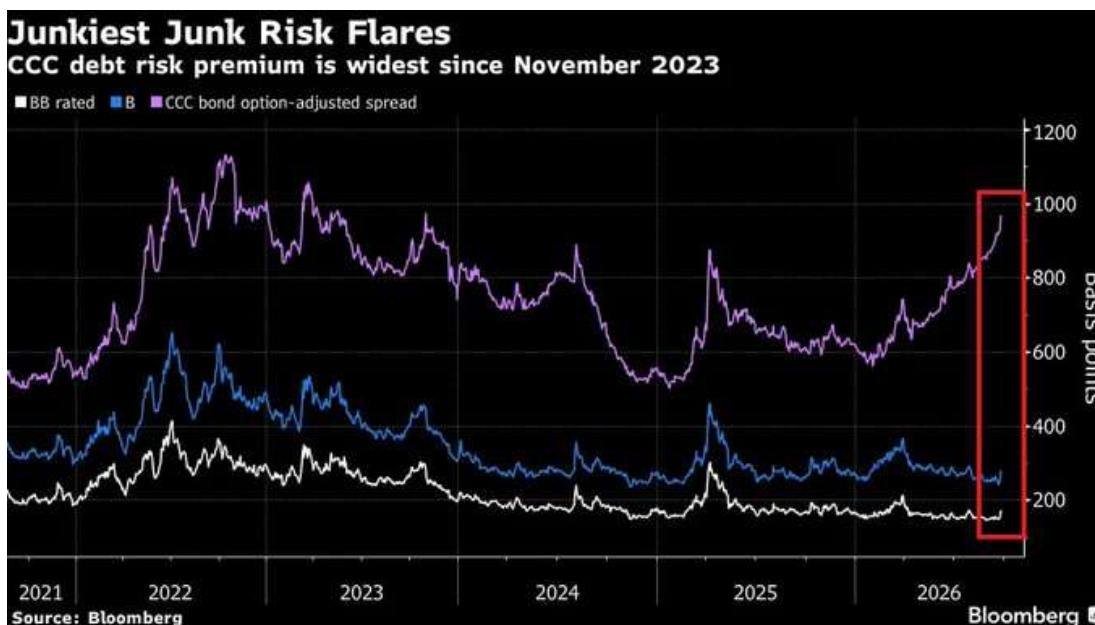


Consumer spending drives roughly two thirds of the economy. So far, wealth and income at the top have offset the strain lower down. If job growth slows or stock prices fall, that balance could shift quickly.

Credit Cracks, in Slow Motion

In April, we used the image of an avalanche: pressure builds quietly, layer on layer, long before anyone can say which snowfall finally moves the mountain. In the third quarter, the snow began shifting in several places at once. Yields on junk bonds have risen above 8%, and the weakest borrowers now pay around 17%, the most since 2020. Leveraged loans trading at distressed prices have nearly doubled in a year to about \$140 billion, close to their pandemic peak, with technology companies the largest share. Even the largest junk bond sale in history, Paramount's financing of its Warner Bros.

Discovery purchase, fell in price almost as soon as it was sold. Borrowing costs for stronger companies, by contrast, have barely moved: the credit market's smoke detector is going off at the weak end first.



Private credit, the large and lightly regulated lending market outside the banking system, remains under steady strain. For the third straight quarter, investors in the largest funds asked to withdraw far more than the 5% the funds allow: about 15% at Apollo's flagship, about 10% at Blackstone's, and 39% at Blue Owl's technology lending fund, where worries center on AI disrupting the software companies it lent to. That stress no longer stays inside private funds. Life insurers owned by private equity firms make up about 8% of the industry but hold about 40% of its private credit investments, and when the same firms own the insurer, manage its investments, and originate the loans it buys, losses become harder to see and easier to pass along to policyholders.

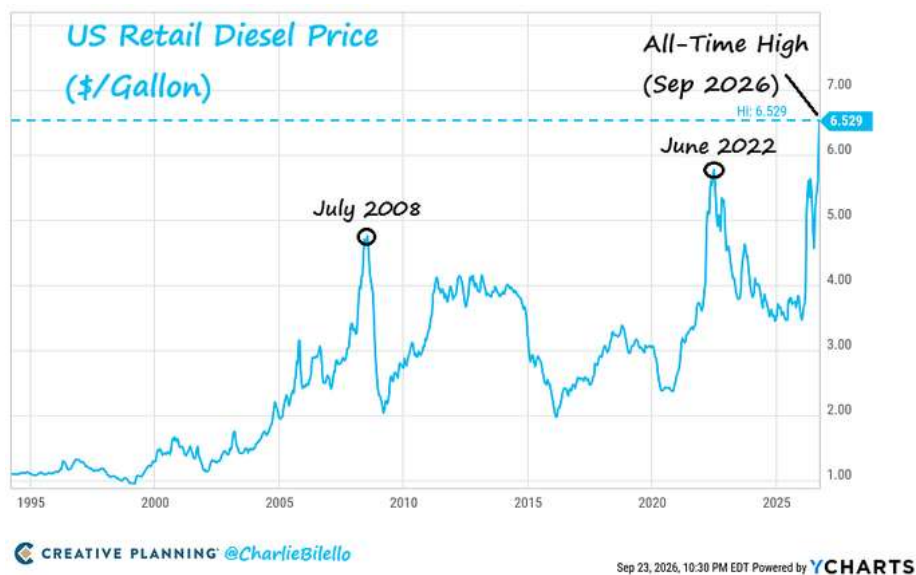
In commercial real estate, losses are moving from paper to reality. Chicago's Aon Center, bought for \$712 million in 2015, was appraised this year at \$195 million, and six U.S. banks have failed so far this year, three times the pace of each of the past two years. There are offsetting signs: the FDIC's list of problem banks shrank in its latest report, and borrowing costs for strong companies remain low. What ties these threads together is their common origin. Each was built when money was cheap, and a higher cost of capital is what turns delayed problems into realized losses.

Geopolitics and Energy: An Oil Shock That Works Like a Tax

The Iran conflict remains the single largest source of pressure on inflation. Fighting resumed in late August after the summer truce broke down, and diplomacy has run alongside it: in late September, President Trump rejected Iran's offer to reopen the

Strait of Hormuz in exchange for sanctions relief, and on September 30 Iran confirmed it had received a formal U.S. response through Qatari mediators. As this letter goes to print, pressure is building again. Tankers in the strait came under repeated attack in the first week of October, Iran is threatening to close shipping routes it calls illegal, and the Pentagon is sending a third aircraft carrier group and roughly 10,000 more troops to the region. President Trump has signaled he may resume strikes on Iran after the midterm elections if no deal is reached.

The energy system is adapting rather than breaking, but at a rising cost. Under U.S. naval escort, Persian Gulf oil exports came within about 1 million barrels a day of pre-war levels in late September, but hiring a supertanker to carry that oil to Asia now costs more than \$1.2 million a day, many times its pre-war rate. The squeeze has shifted from crude oil to refined fuel. Diesel hit a record \$6.53 a gallon in late September and has eased only slightly, even after the G7 agreed to release 100 million barrels from emergency stocks, and China has suspended most fuel exports for October to protect its own supplies. Diesel moves trucks, trains, farm equipment, and ships, so a diesel shock works like a tax on nearly everything, and more than a dozen small trucking companies filed for bankruptcy within about a month this fall.



The conflict has also widened. Saudi-backed forces have pushed the Houthis back from much of the Red Sea coast they seized in September, and the Houthis have answered with strikes on Saudi airports and energy sites, while drones Saudi Arabia traced to Iraqi militias have twice halted its main pipeline around Hormuz. Beyond the Middle East, strikes on Russian refineries are adding to fuel shortages, and the U.S.–China trade truce leaves semiconductors, rare earths, and Taiwan unresolved. Iran's own economy is under mounting strain, which could push Tehran toward a deal or toward escalation, and we don't think either outcome can be ruled out.

Closing Perspective

The third quarter showed that strength and strain can grow at the same time. Earnings are real, business investment is real, and so is the rising cost of money. AI financing, private credit and real estate, household borrowing, and government budgets were all built on the assumption that money would stay cheap. Because these pressure points rest on the same assumption, they can move together, which is why we don't view any of them in isolation. So far, the stress has shown up mainly in government bond markets while stocks have stayed calm. The signal we are watching most closely is whether that stress begins to show up more broadly in corporate borrowing costs.

Geopolitical developments may have a greater influence on markets in the months ahead than any individual economic report. A deal that fully reopens Hormuz would ease fuel prices and take some pressure off inflation and interest rates. A wider war, particularly one that closes the Red Sea as well, would do the opposite. We are not positioning portfolios around either outcome, because no one can reliably predict it. We are positioning for a world where energy prices, and with them the cost of money, can move sharply in either direction.

The fourth quarter also brings several tests at home: third quarter earnings season, led off by the major banks in mid-October, the Fed's decision on October 28, the November 3 midterm elections, and a government funding deadline on December 11. We expect surprises along the way.

We don't think the answer is to abandon a market that is still moving higher, and we don't think the answer is to ignore what's building underneath it. With so few stocks carrying the index, we continue to favor careful stock selection over broad index exposure, experienced managers who have navigated markets like this one, and thoughtful use of cash, which now pays meaningfully more than it has in years, along with alternative strategies built for markets that don't move in a straight line.

If you have questions about how these developments affect your specific situation, we encourage you to reach out. We value the trust you place in us and do not take it lightly.

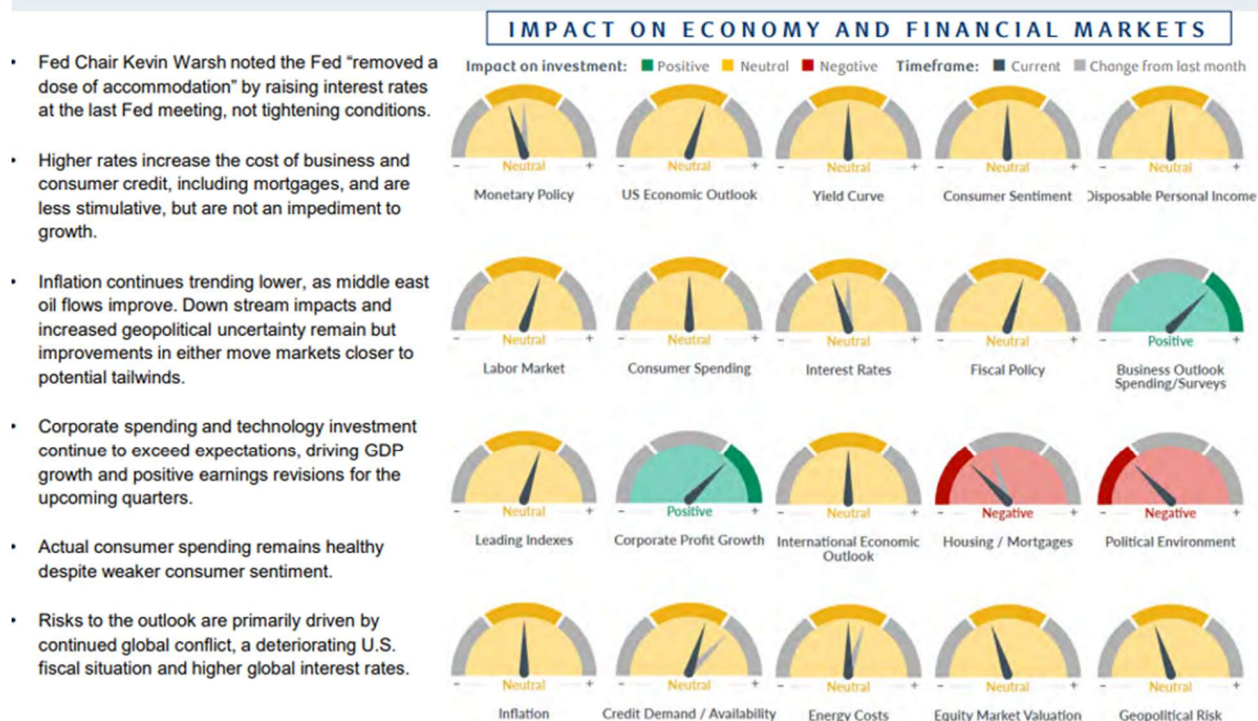
Jim Evens
Investment Director

Economic Speedometer Summary — City National Rochdale

Below is the monthly economic speedometer summary across key indicators. (Green = positive, Yellow = neutral, Red = negative)

Rochdale SpeedometersSM – October 2026

Economic and financial indicators that are forward-looking 6 – 9 months



Source: Bloomberg and proprietary opinions based on RBC Rochdale Research, as of October 2026. Information is subject to change and is not a guarantee of future results.